

BOOK VIII

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DAILY SUMMARY

1 Oct 1947 (#497) - 31 Dec 1947 (#572)

EDITOR'S COPY

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GENERAL

1. Greece protests to Yugoslavia--US Embassy Athens reports that the Greek Government has presented a note to the Yugoslav Legation protesting the dissemination of news by the Belgrade press and radio designed to instigate revolt in Greece. The note also states that Greek authorities have evidence that the rebel radio is established on Yugoslav territory. The note concludes that: (a) there can no longer be any doubt of "the support given by the Yugoslav Government to the rebellion of the bandit Markos and his following"; and (b) the Yugoslav attitude is contrary to the UN Charter and constitutes open intervention in the internal affairs of Greece.
2. Early Yugoslav recognition of Markos hinted--The UK Ambassador in Belgrade has informed US Ambassador Cannon that he gained from the "general atmosphere" of a conversation with the Yugoslav Deputy Foreign Minister the impression that "the Yugoslav Government is contemplating early recognition of the Markos group."
3. Arabs turn to UK at expense of US--US Charge Dorsz reports from Baghdad that, in view of US and Soviet support of the partition of Palestine, the Arabs feel that the UK is the only big power to whom they can turn for assistance. He adds that the USSR has never inspired friendship and that the US now "has let the Arab world down" to such an extent that the Iraqis consider the US unfriendly.

EUROPE

4. GERMANY: Continued Soviet pressure on political opposition--US Political Adviser Murphy reports that in a further move to oust the leadership of the Christian Democratic Union (CDU) in the Soviet Zone, the Soviet Military Administration has simultaneously: (a) recognized a new party executive; and (b) named new editors and a new licensee for the CDU Berlin paper and authorized an increase in the paper's circulation from 50,000-125,000. Murphy adds that the recently ousted party officials, Kaiser and Lemmer, still consider themselves legitimate

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Document No. 076
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DDA Memo, 4 Apr 77
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Date: 4 APR 1978 By: 023

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CDU heads and have been conferring with CDU officials from the Soviet and Western Zones; these officials have not yet reached a decision regarding dissolution of the party in the Soviet Zone.

Expected Soviet efforts to oust West from Berlin--US Ambassador Smith shares Ambassador Murphy's misgivings over the reported UK suggestion that "some reparations" be given the USSR to keep Soviet officials from creating intolerable conditions in Berlin for the Western Powers (see Daily Summary for 26 December, item 5). Smith considers that any such attempt to appease the USSR would disregard "what we have learned from experience in dealing with the USSR." Smith also anticipates that Soviet officials in Berlin will undertake a "noisy campaign" and make conditions as unpleasant as possible to "scare" the Western Powers into evacuating the city (see CIA Special Evaluation No. 23, 22 December). Smith believes, however, that the Kremlin will not push matters to the breaking point on any European front, at least until the USSR has further consolidated and organized the Satellite economies and military establishments.

5. FRANCE: France desires improved relations with Franco Spain-- An official of the French Foreign Office has told US Ambassador Caffery that, in view of the Cominform Declaration and the recent activity of French Communists, France wishes to improve its relations with Franco Spain. As a step in this direction, the French hope to begin official conversations with the Spanish in January looking to the gradual reopening of the French-Spanish frontier and the eventual resumption of normal commercial relations between the two countries. Caffery's informant observed that because of open Communist efforts to take over western Europe, France must strengthen its relations with both Spain and Portugal, as well as its other neighbors.
6. USSR: No evidence of serious food shortages in Moscow--US Embassy Moscow reports that, although certain bottlenecks have retarded distribution, there is no evidence of serious food shortages in Moscow.

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Although the people fear that the present availability of goods in state stores may not continue, there has been no increase in the state-controlled prices established at the time of the recent monetary decree.

NEAR EAST-AFRICA

7. **TURKEY:** Arab requests for arms refused--Foreign Minister Sadak has informed US Ambassador Wilson that requests for arms made by representatives of Arab states have been refused by the Turkish Government. Sadak informed the Arabs that: (a) such supply would place the Turks in an "impossible" position with regard to the US, which is now supplying arms to Turkey and which supported the UN decision to partition Palestine; and (b) such aid would be a violation of Turkey's obligations as a member of the UN.
8. **PALESTINE:** British to intercept PAN YORK and PAN CRESCENT--US Consul Macy reports from Istanbul that the British have stationed a frigate and two destroyers at the exit of the Dardanelles (with a cruiser available for boarding operations) to intercept the Zionist immigrant ships PAN YORK and PAN CRESCENT. (According to a CIA source, the two ships are due off the Palestine coast on 1 or 2 January.)

THE AMERICAS

9. **PARAGUAY:** Possible assumption of extraordinary powers by Morinigo--US Embassy Asuncion has been informed by the Argentine Ambassador that Finance Minister Gonzalez, the Government's candidate for the presidency, has so little support that he could only hold office as a "Presidential puppet." The Embassy's source added that a group led by Foreign Minister Vasconsellos is now seeking a formula whereby Morinigo can assume extraordinary powers until he can call for new elections and hold a new convention to elect his successor.

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GENERAL

1. UK plans steps concerning "free" Greek government--A UK Foreign Office official has informed US Embassy London that the UK proposes to take the following steps concerning the Markos regime: (a) instruct UK representatives in Belgrade and Sofia to inform the Yugoslav and Bulgarian Governments that "by no stretch of international law can the Markos group be considered to have the rights even of a belligerent, and therefore it does not have the status of a government"; and (b) instruct the UK Ambassador in Athens to urge the Greek Government not to suppress indiscriminately non-Communist leftist parties but to endeavor to persuade leftist "splinters" to condemn the Markos group. The official said that while Satellite recognition of the Markos regime would create a "tricky" situation vis-a-vis the UN, he thought that "the Greek Government could ask the US or the UK to send troops to Greece to assist it in resisting aggression." The official also expressed the opinion that recognition of the Markos regime might take place in stages, and that Albania, still technically at war with Greece, might be the first to accord recognition "as a test."
2. Reported Satellite intentions in Greece--The US Military Attache in Belgrade believes that the announcement of the "free" Greek government strongly implies imminent recognition by the Satellites. The MA considers that the USSR and its Satellites will "do everything to establish a Communist Government in Greece short of bringing on World War III." He expects the Satellites successively: (a) to step up considerably shipments of materiel and supplies; (b) to assign military missions to the "free" government, "thereby adopting a 'Truman doctrine' for Markos"; and (c) to supply more volunteers and perhaps international brigades.

EUROPE

3. GREECE: Strong Greek army effort necessary for relief of Konitsa--According to US Embassy Athens, the Greek Commanding Officer of the Jannina area believes that the current guerrilla operation against Konitsa is the work of Soviet and Yugoslav experts rather than of

Document No. 075
 NO CHANGE in Class. ☐
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 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1703
 Date: 4 APR 1978 By: 023

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Greek amateurs because it is so well planned and executed. The Assistant US Military Attaches believe that Konitsa can be relieved, but they point out that: (a) the operation will require additional reinforcements and a strong effort by the Greek Army; and (b) if the operation is successful, the resulting concentration of the Greek Army around Konitsa will leave Jannina "badly exposed." The Greek Commanding Officer also declared that Greek Army casualties have been extremely heavy and that guerrilla ammunition is apparently unlimited.

4. TRIESTE: Yugoslavs press for early appointment of Governor--US Ambassador Dunn reports that the Yugoslavs are exerting pressure on the Italians for early agreement on a candidate for Governor of the Free Territory of Trieste. Dunn believes that this pressure reflects Yugoslavia's desire to get US and UK troops out of Trieste and has a very definite bearing on Yugoslav and Soviet intentions toward Italy. Dunn adds that the UK Ambassador has hinted to De Gasperi that the UK "would not be at all sorry" if Italo-Yugoslav discussions regarding a Governor came to nothing.
5. ITALY: Anti-Communist moderates considering split with CGIL--The US Military Attache in Rome reports that the Christian Workers Union is planning a congress in January to discuss the present policy of the Italian General Confederation of Workers (CGIL) and the establishment of a movement similar to the new Force Ouvriere in France. The Attache believes that such action may lead to the secession of all moderate labor groups from the CGIL, which would then be composed only of leftist extremists.

(CIA Comment: The withdrawal of anti-Communist elements from the CGIL would deprive the Confederation of only about 18% of its present membership. As the secessionists would be primarily white collar workers, their defection would not, in the immediate future, reduce the CGIL's capability for instigating a paralyzing general strike. On the other hand, a new anti-Communist labor movement could serve as a nucleus for a far larger anti-Communist labor group which in time could neutralize the capabilities of the Communist-dominated CGIL.)

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6. UK: US statement welcoming UK-USSR pact suggested--The UK Foreign Office has told US Embassy London that the public does not sufficiently recognize that the recently signed UK-USSR agreement fits in with the purposes of the European recovery program. According to the Foreign Office, the agreement has been interpreted in some quarters as a UK move to reorient its trade from the US to the USSR. A Foreign Office official believes that a formal US statement welcoming the agreement in connection with the recovery program would be most helpful in Europe.

NEAR EAST-AFRICA

7. TRANSJORDAN: Government's resignation may impair Arab solidarity-- US Consul General Macatee reports from Jerusalem that Transjordan's Prime Minister, Samir Rifai, has resigned and King Abdullah has requested former-Premier Tewfic Pasha Abul Huda to form a new government. The resignation marks the culmination of a feud between Abdullah and Samir Rifai.

(CIA Comment: This development may threaten Arab solidarity as Samir Rifai, unlike King Abdullah, has unequivocally supported the Arab League's Palestine policy. The new Prime Minister will be more amenable to the policies and personal wishes of Abdullah.)

8. INDIA: British fear Indian attack on Pakistan--According to US Embassy London, Undersecretary Patrick of the UK Commonwealth Relations Office regards the recently-expired Indian note to Pakistan concerning Kashmir (see Daily Summary of 26 December, item 1) as an ultimatum and fears that it will be followed by an Indian attack on Pakistan within the next few days and by a complaint to the Security Council. Although Patrick believes some concession by Pakistan might relieve the tension over what India regards as interference in its integral territory, he points out that Pakistan has asserted its inability to control the Moslem tribesmen who have invaded Kashmir in a spirit of holy war. He also believes that the Sikhs might get out of control and thus force an inter-dominion struggle. Patrick adds that although the immediate withdrawal of British officers from the armies of both dominions following outbreak of hostilities would "cripple" Pakistan's

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Army, the larger Indian Army is at present overextended so that Pakistan would not be immediately overwhelmed. He stated his belief that Afghanistan would probably make an alliance with Pakistan and that the USSR also would probably take Pakistan's side. According to Patrick, the British position has not yet been formulated.

(CIA Comment: Sikh ambition to regain lost territory in the West Punjab may prove a critical factor in the present situation. A large concentration of Sikhs near the India-Pakistan boundary suggests that the Sikhs may have determined to precipitate a conflict. In the event of hostilities, Moslem tribal support might enable Pakistan to gain an initial success over the overextended Indian Army despite the withdrawal of British officers. CIA doubts that the USSR would align itself with Pakistan, because India is more receptive to Communist doctrine and would have greater long-range value as an ally.)

FAR EAST

9. PHILIPPINES: Immediate uprising reported cancelled--The US Commanding General in the Philippines reports that the probability of an immediate uprising has been greatly lessened by apparent action of Communist leaders in cancelling what promised to be an initial outbreak on Christmas eve. Through a well-informed and reliable source, the Commanding General has learned of recent conferences between three Communist leaders and the President of the Philippine Senate during which: (a) the Communists were informed that the Philippine Government was aware of the plans for revolution; and (b) the participants discussed possible Communist proposals to the Philippine Government regarding a compromise settlement of the Central Luzon situation. Following these meetings, it was reliably reported that plans for the uprising were suspended. The Commanding General warns, however, that the dissidents do not appear to have abandoned their original intentions, and that future action is a possibility.

(CIA Comment: CIA believes that conditions favorable to revolution exist in the Philippines, and that sporadic outbreaks and rumors of revolt will continue.)

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10. CHINA: Prospects for fall of Mukden--US Consul General Mukden reports that the current Communist offensive in Manchuria apparently is designed to hasten the fall of Changchun and Kirin and is not aimed primarily at the capture of Mukden. He considers, however, that internal revolt, desertions, or fifth column activity may cause the fall of Mukden within weeks or months. He expects that if the Nationalists and Communists are able to negotiate an evacuation of the city, the transfer of authority may be orderly, otherwise he believes it likely that the turnover will be "wild and bloody."

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EUROPE

1. SPAIN: Embassy comment on US policy toward Spain--With reference to the State Department's recent review of US policy toward Spain, US Charge Culbertson observes that: (a) Franco will not substantially modify his regime so long as the US and other powers insist on his personal elimination; and (b) if these powers seek a cooperative solution with Franco, "pressure would be so great that Franco would liberalize and in time be eased out of power." Culbertson therefore suggests that the US convince all elements including Franco of "the practicability of cooperative solution and long-term democratic results" and implement present US policy by a willingness to consider now "governmental assistance coordinated with private credits."

(CIA Comment: CIA believes it most unlikely that Franco will or can substantially modify and "liberalize" his regime.)

2. ITALY: "Deposit" of critical US arms suggested--US Ambassador Dunn reports that an existing critical shortage of funds and foreign exchange is likely to reduce seriously the amount of military equipment and ammunition for which the Italian Government can pay. Italian military officials have suggested to Dunn that the US "deposit" in Italy such arms as might be needed by the Government to check any Communist revolutionary attempt and thus permit the Italian armed forces and police to pay for only those items actually used.

Dunn suggests instead that: (a) critical military items be "deposited" in US-occupied Zones in Europe and made ready for rapid shipment to Italy; and (b) some consideration be given to air delivery of this emergency military aid. He observes that "the outcome of the early days of the fighting would be all-important."

3. GREECE: Friction within KKE reported--US Embassy Athens reports that there is "some supporting evidence" for current stories in the Athens press alleging recent friction within the KKE (Greek Communist Party). The press accounts suggest that the establishment of the Markos regime marks a victory for the "internationalists"

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over the "nationalists" in NKE. The stories allege that the "internationalists" have agreed to the incorporation of Greek Macedonia into the Yugoslav Federal Republic as a condition for the authorization and recognition of the "free" Greek government by the Balkan Communist states.

4. SWEDEN: Government to request US financial aid--US Ambassador Matthews reports that the Swedish Government has agreed in principle to authorize its financial adviser to the Foreign Office (now in Washington) to ask for US financial assistance (see Daily Summary of 22 December, item 8).

According to Matthews, US refusal to grant a loan: (a) would be interpreted as US disapproval of Sweden's postwar economic and/or political policies; and (b) would result in "keen disappointment and some resentment," which might prove salutary because a deterioration of Swedish economic conditions might demonstrate that Sweden's future is more closely linked to the West than certain Swedish officials have been prepared to admit. Matthews does not think that such deterioration would result in a serious increase in Communist strength in the country. In Matthews' opinion, a US refusal might also remove Swedish complacency toward the European recovery program.

NEAR EAST-AFRICA

5. TURKEY: "Free" Greek regime regarded as test of resistance--US Ambassador Wilson reports that Foreign Minister Sadak has expressed concern over the formation of the "free" Greek government, which Sadak regards as an example of the familiar Soviet technique of probing for weakness. The Foreign Minister expressed his belief that if the USSR concludes that the Satellites can recognize and support the Markos regime without great risk, it will "move in rapidly" and the situation will then become extremely grave. Sadak added that, in his opinion, only a prompt declaration of US interest in maintaining the freedom and independence of Greece can prevent the development of such a dangerous situation.

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FAR EAST

6. FIG: French fall campaign ends--US Consul Hanoi reports that from all appearances the active military operations in north Indochina ended about the middle of December. Neutral observers do not believe that a majority of the Viet Minh troops were destroyed or even engaged, as the French have claimed. They also doubt the French claims that the greater part of the Viet Minh supplies have been destroyed or that French casualties have been as low as reported. The Consul expects French losses to continue as a result of increased Viet Minh action following the onset of bad weather.

THE AMERICAS

7. NICARAGUA: Dominican recognition accorded--The US Charge in Managua reports that the Dominican Government has recognized the Roman y Reyes regime.

(CIA Comment: Other Latin American Republics may now be expected to follow the Dominican Government's lead in formally recognizing the present Nicaraguan regime.)

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1. **FRANCE:** Bidault also requests military talks with US--Foreign Minister Bidault has reiterated to US Ambassador Caffery Armed Forces Minister Tietgen's recently expressed desire for military conversations between France and the US (see Daily Summary of 22 December, item 4). Bidault likewise observed that France "by definitely aligning itself with the West" and "by arresting and expelling Soviet agitators" has exposed itself to possible Soviet reprisals. He added that the Government is planning a further purge of "dissident elements" from the French Air Ministry, including Chief of the Air Staff Major General Piolet.
2. **GREECE:** "Free" government reported in Serbia--Greek Charge Pappas has told US Charge Bruins in Prague that he has "reliable information" that the "free" Greek government is located in Serbia. Bruins considers Pappas "usually well informed."

Greek morale lowered by announcement of Markos regime--
US Charge Rankin reports from Athens that the announcement of the "free" Greek government has made a "surprisingly strong psychological impact" on the Greek man in the street. Rankin adds that the proclamation cast a pall of gloom over Christmas festivities and caused some speculation as to the prospects of (a) the bombing of Athens; (b) uprising and sabotage in the capital; and (c) the abandonment of Greece by the US. There is little confidence, Rankin adds, that the US will take effective counter-measures in the event that the "free" regime is recognized by the Satellites.

Prime Minister stresses need for arms--Rankin also reports that Prime Minister Sophonoulis has emphatically reiterated his plea for an increased supply of US automatic weapons and artillery which, the Prime Minister says, "must be in the hands of the Greek Army before April if catastrophe is to be averted."

Document No. 073NO CHANGE in Class. ☐☐ DECLASSIFIEDClass. CHANGED TO: TS S 0

DPA Memo, 4 Apr 77

Auth: DPA REG. 77/1763

Date: 4 APR 1978 By: 023**CONFIDENTIAL**

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GENERAL

1. India may take Kashmir issue to Security Council--US Charge
Donovan reports from New Delhi that the Government of India has delivered a note to the Government of Pakistan requesting that Pakistan deny to the Kashmir invaders "all access to and use of Pakistan territory for operation against Kashmir, all military and other supplies, and all other kinds of aid which might tend to prolong the present struggle." The note adds that, failing a satisfactory response, the "GOI will be compelled to take such action, with due regard to its rights and obligations as a member of the UN, as it may consider necessary to protect its own interests, and those of the people of Jammu and Kashmir." The Secretary General of the Indian Foreign Office told Donovan that: (a) he sees little hope of agreement between India and Pakistan on the Kashmir question; (b) unless a favorable reply to the Indian note is received before the end of December, the GOI will present the matter to the Security Council; and (c) the GOI will not permit adjudication of the issue by the UK or any other member of the British Commonwealth.
2. Embassy Athens comments on "free" Greek government--US Embassy
Athens reports that the significant features of the announcement of the "free" Greek government are: (a) failure to include any non-Communists in the cabinet; (b) failure to identify the seat of the government; (c) emphasis on special friendship with the USSR and the Balkan neighbors; (d) the reference to full equality of minorities within Greece; and (e) the "ominous reference" to the organization of a "democratic air force." The Embassy adds that the long-term significance of the announcement depends on whether the government is recognized by one or more of the Satellites and/or the USSR and the guerrillas receive substantially increased aid. The Embassy expresses the opinion that "developments along these lines" will occur gradually, their precise nature and rhythm depending on the Soviet estimate of probable US and world reaction.
3. Yugoslav reaction toward "free" Greek government--Yugoslav Deputy Foreign Minister Bebler has professed to US Ambassador Cannon in Belgrade that he does not know whether Yugoslav recognition of the

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DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

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"free" Greek government will be "early or deferred." Bebler supposed, however, that "it would be logical to break with Athens eventually depending on circumstances." Bebler described the Greek situation as a "regular civil war" on which neighbors are entitled to take a position. Bebler was clearly impressed when Cannon pointed out that if the Markos regime were recognized by nearby states, the world at large would consider Yugoslavia "in the forefront with large responsibilities for the consequences."

EUROPE

4. BELGIUM: Spaak critical of democratic leadership--US Charge Millard reports that Premier Spaak has expressed to him a pessimistic view of: (a) the lack of energetic leadership among the democracies as compared with the "positive activity and vigorous plans of the USSR"; (b) the apparent lack of planning which preceded the CFM; and (c) the probability that France and other European countries would be unwilling to make the sacrifices necessary for domestic recovery without firm pressure from the US.
5. UK: Reported views on Western position in Berlin--According to US Embassy London, a high Foreign Office official believes that "some reparations, however limited" should be given the USSR to prevent Soviet officials at least for a time from creating intolerable conditions for the US, the UK, and France in Berlin. The same official believes the Western Powers should carefully review their position in Berlin, and if any doubt exists that their position can be maintained they should withdraw and make a public statement blaming the USSR. Otherwise, the official believes, an intolerable situation would be created, if the Western Powers announced they would remain and then were compelled to withdraw. The same official has also advised the Embassy that he believes a central provisional government should be established immediately for the Western Zones at Frankfurt and its provisional nature widely publicized.

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However, Ambassador Murphy reports from Berlin that the above views are contrary to his understanding of Foreign Minister Berlin's attitude on the establishment of a central government. Murphy disagrees with the view that reparations should be paid to the USSR to obtain respect for the four-power agreement authorizing the powers to occupy sectors of Berlin.

6. ITALY: No US objections on Soviet trade talks--The Department of State has authorized US Ambassador Dunn to inform the Italian Government that the US sees no reason why Italy should not enter into trade negotiations with the USSR as currently planned (see Daily Summary of 18 December, item 2).

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GENERAL 25X1X6

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1. Arabs buying arms for possible fighting in Palestine--US Charge
 Memminger in Damascus reports that [REDACTED] Syria has made arrangements with Czechoslovakia to buy arms and ammunition to the value of \$2,085,000. US Military Attache Baghdad reports that Iraq has concluded an agreement with the UK for the purchase of arms and equipment to be delivered by 30 April 1948. The MA adds that the new equipment (already arriving) is designed to strengthen Iraqi units for possible fighting in Palestine.

EUROPE

2. FRANCE: RPF tactics disgust some De Gaullists--US Ambassador
 Caffery observes that De Gaulle's friends in the Assembly have demonstrated, by their request for new elections and their antagonism to the Government's economic program, that they are bent upon making trouble for the Schuman Government (see Daily Summary of 22 December, item 4). Caffery notes with satisfaction that "some supporters of De Gaulle are becoming disgusted with these tactics."

NEAR EAST-AFRICA

3. EGYPT: Tuck suggests US take steps to regain prestige--US
 Ambassador Tuck reports that US prestige in Egypt is at an all-time low. Tuck states that Egyptian feeling will continue to be governed by the US attitude, official and otherwise, toward the implementation of the partition of Palestine. He considers that Egyptian resentment may develop into an attitude of active hostility toward the US. Tuck expresses the opinion that the US should carefully consider every possible step which could restore its lost prestige. He suggests that some concrete gesture should be made, such as an offer of direct assistance in Egypt's present financial and economic difficulties.

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4. IRAN: Hakimi facing difficulties in formation of cabinet--US Ambassador Allen in Tehran reports that Prime Minister-designate Hakimi is experiencing considerable difficulty in forming a cabinet and that the Shah is apparently pleased. According to Allen, the Shah seems to believe that a continuation of the government crisis will create a public demand that he take a leading role in resolving the situation. Allen adds that reports that former Prime Minister Qavam has been arrested have "no basis" and that Qavam will probably be allowed to depart for Switzerland in a few days.

FAR EAST

5. CHINA: National Government again stresses ammunition shortage--The Chinese Vice-Minister of Foreign Affairs has stressed to US Ambassador Stuart the "dire need" of the Chinese armed forces for US 50-caliber ammunition, stating that China has only two million rounds remaining. Stuart comments that while there is no way of ascertaining with accuracy the amount of ammunition possessed by the Chinese Nationalist armies, the deteriorating military situation indicates that such a shortage is likely.
6. INDONESIA: UK official's impression of situation--US Embassy The Hague reports the opinion of Hugh Grey, recently appointed head of the SEA Division of the UK's Foreign Office, that nothing tangible can be expected from the Security Council's Good Offices Committee (GOC). Grey believes that the US and the UK have a common interest in a speedy solution of the Indonesian problem. He considers that: (a) the major problem is how to make the Dutch realize that it is to their own best interest to come to terms with the Indonesian Republic; and (b) that the Dutch do not realize the "catalytic action of world war in speeding up political evolution in the Far East dependent areas and the consequent, inevitable Nationalist triumph."

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GENERAL

1. "Cominform" for Latin America reported under discussion--US Ambassador Caffery in Paris has been told by a "trustworthy source" that: (a) the "Comintern agent" Vitorio Codovilla, a major figure in the Argentine Communist Party, attended the recent UNESCO meetings in Mexico City and discussed with its Communist participants the establishment of a "Latin American 'Cominform'"; and (b) the question was left open because of indecision as to whether the new organization should be strictly secret or "more or less open" like that in Belgrade.

(CIA Comment: CIA recently directed attention to the fact that the creation of additional regional Communist groupings, particularly in Latin America, is a possibility; see CIA Weekly Summary of 19 December, page 1.)

EUROPE

2. USSR: Controls on missions and correspondents increased--US Embassy Moscow interprets the new Soviet restrictive measures as indications that the Kremlin has made a basic decision to make living conditions as unbearable and expensive as possible for foreign missions and correspondents in Moscow. The apparent aim is to force many of them to withdraw and thereby limit to the bare minimum the number of eyes and ears which can report on actual conditions inside the USSR.

The Embassy feels that we should make concrete plans to retaliate immediately by placing restrictions upon both Soviet and Satellite missions in the US similar to those placed on US representatives in Eastern Europe.

New Deputy Chairman of the Council of Ministers appointed--
The US Military Attache in Moscow reports that V. A. Malyshev was appointed Deputy Chairman of the Council of Ministers on 20 December.

(CIA Comment: The Council of Ministers now has 12 Deputy Chairmen; of these only two, including Malyshev, are not members of the Politburo. Malyshev is a member of the Central Committee of the Communist Party and, as a Colonel General, he was Commissar of the

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tank industry until October 1945. Since then, he has been Minister of Transport Machine construction. CIA believes that the purpose of Malyshev's appointment to one of the highest government positions is primarily to enable him to exercise more direct authority and to concentrate his attention on the greatest single weakness in Soviet economy--the shortage and disrepair of railroad transport equipment, particularly locomotives and rolling stock.)

3. FRANCE: More publicity for US aid recommended--US Ambassador Caffery expresses his conviction that the French people are inadequately informed of the present scope of US aid to France. He considers that this aid should receive increased publicity, preferably through the French Government and French news channels. Caffery believes that French officials will cooperate provided they are "continuously stimulated." He inquires as to the possibility of obtaining additional funds to carry out this publicity program on an adequate scale.

Bidault expects agreements soon on German coke--Caffery also reports that Bidault's report to the Foreign Affairs Committee of the National Assembly stressed the need of an "international regime" in the Ruhr and of "concrete certainties regarding the export of German coal and coke." Bidault added that he expected "very soon" to conclude new agreements guaranteeing certain tonnages of German coke for the French steel industry.

4. CZECHOSLOVAKIA: Communist drive expected in January--US Charge Bruins in Prague reports current indications that beginning in January 1948 the Communists will make every effort to achieve their objectives in Czechoslovakia by constitutional rather than extralegal means. He cites three reasons which militate against extralegal Communist action: (a) because of their non-revolutionary character, the Czechoslovak people would probably react unfavorably to unconstitutional methods; (b) as Czechoslovakia is the only peripheral country with a highly developed industry, unorthodox Communist election methods would impair the country's ability to obtain necessary raw materials from the West and thereby jeopardize the export of

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Czechoslovak products vital to the USSR; and (c) President Benes, who is extremely popular and highly respected, would strongly resist extralegal measures.

NEAR EAST-AFRICA

5. IRAN: Premier-designate considered weak--US Ambassador Allen reports that Ibrahim Hakimi, the Iranian Prime Minister designate, is regarded as honest and patriotic but as having little force or courage in emergencies. Allen adds that as the USSR considers Hakimi a "British stooge," he will be under attack by Moscow. Allen believes that Hakimi will be fortunate to last two months, if he takes office.

FAR EAST

6. CHINA: Possible peace negotiations with Communists--US Ambassador Stuart has learned from General Chang Chih-chung that Chiang Kai-shek on 20 December, following a conversation in which General Chang stressed the futility of continuing the civil war, gave the latter permission to attempt to renew negotiations with the Chinese Communists. Stuart reports that Chang Chih-chung believes the Chinese Communists are ready to respond to such a proposal. Stuart adds that Chang has already approached the Soviet Embassy in an effort to enlist Soviet assistance in persuading the Chinese Communists to give up fighting and resume negotiations. In Stuart's view, however, it is inconceivable that the Chinese Communists will accept peace negotiations at a time when they are winning on all sides, except possibly as a means of discouraging and hampering US aid to the National Government.

(CIA Comment: The Chinese Communists will probably not enter into negotiations with the present National Government on anything but their own terms unless: (a) their present advantageous military position is seriously undercut by effectively-implemented US aid to the Nationalist armies; and (b) any prospect of substantial Soviet assistance to the Communists is removed.)

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Government leaders concerned about US aid conditions--
US Ambassador Stuart reports that the Generalissimo, the Prime Minister, and the Foreign Minister are concerned about criticism from Chinese reactionaries of the Government's recent request for US aid. As an indication of official concern, Stuart cites a memorandum, received from the Generalissimo's secretary, containing conditions for the extension of US \$1,500,000⁰⁰⁰ economic aid over a four-year period and for loans to enable China to buy surplus and other military material from the US Government (estimated at US \$100,000,000 for 1948). This memorandum states that the China program: (a) shall impose no legal obligation upon the Chinese Government to employ US personnel; and (b) shall contain no political conditions other than those which may be stipulated in an aid plan for Europe.

7. SIAM: Thamrong-Phibul meeting--US Military Attache Bangkok believes that a recent meeting between Marshal Phibul and ex-Premier Thamrong may lead to Thamrong's open political resurgence. Although Thamrong may have delivered an ultimatum to Phibul, the MA believes it more probable that Thamrong requested the formation of a coalition government. The MA discounts reports that the Siamese Navy will take direct action against the Government but will intensify its war of nerves.

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GENERAL

1. Arab volunteers enter Palestine--US Charge Memminger reports from Damascus that a "sizeable band" of Arab volunteers has entered Palestine from Syria. Memminger predicts that "serious hostilities" will occur before 24 December.
2. Greece suggests combined military planning to Turkey--Turkish Foreign Minister Sadak has informed US Ambassador Wilson that the Greek Government has made suggestions to Turkey looking to combined military planning and eventual combined operations, if future developments warrant. Sadak said that while Turkey realizes that the fall of Greece would constitute a serious threat to Turkish independence, the Turkish Government had replied to the Greeks "in a vague and guarded manner" because of the instability of the Greek situation and in order to avoid any action which might seem provocative to others.
3. Yugoslavia professedly desires no "adventures" in Trieste--US Ambassador Cannon in Belgrade has been informed by a Yugoslav vice-minister of Foreign Affairs that "Yugoslavia wants no adventures and expects the Trieste situation to evolve along treaty lines." Cannon has informed the Yugoslav Foreign Office of the US intention to enforce the Peace Treaty provisions on Trieste with "complete firmness" (see Daily Summary of 19 December, item 2). He believes, however, that any further representations to the Yugoslavs at this stage would have a diminishing effect and would "indicate nervousness on our part."

EUROPE

4. FRANCE: War Minister desires US-French defense talks--The French Minister of Armed Forces had informed US Ambassador Caffery that he is very anxious that France hold informal military discussions with the US. He added that France would be disposed to yield to the US such privileges and strategic bases in French

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territory as the US might need. He asserted that France has now openly declared itself against the USSR and on the side of the western world.

The Minister commented that if it were made clear to the French people that the US was trying to guarantee French security, there would be no difficulty in working out measures for the control of Germany. He expressed himself as encouraged by recent evidence of the Government's ability to "stop" the Communists, but added that he expects a new outburst of trouble in the latter part of January.

RPF declares Government unrepresentative--US Embassy
Paris reports the defeat of a proposal, endorsed by De Gaulle's Rally of the French People (RPF), that March 1948 be set as the expiration date for the present National Assembly. RPF spokesmen alleged that the Government failed to represent public opinion and lacked a real majority in the French Assembly. The Embassy comments that although this proposal was decisively defeated, the RPF's action: (a) tends to create confusion in the public mind and hinders basic non-political reforms; (b) possibly results from RPF apprehension that Schuman's success could make De Gaulle's return to power unnecessary; and (c) suggests the increasing possibility that the Assembly may be dissolved and new elections held, if the Government's economic program fails.

"Force Ouvriere" receives international endorsement--
The Embassy has learned from a French labor leader that the Belgian General Federation of Labor (CGT) has offered "material and moral" support to the "Force Ouvriere" group (which recently seceded from the French CGT), and that the "Force Ouvriere" has also received endorsement from Dutch and Scandinavian labor groups. The Embassy's informant added that the "Force Ouvriere" expected the CIO and the AF of L to give it similar support.

French labor schism may promote split in WFTU--The Em-
bassy also reports the opinion of Belgian and French trade union leaders that the secession of one million French workers from the Communist-controlled CGT and the decision of the British Trade

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Union Congress to support the European recovery program may soon create a split in the World Federation of Trade Unions. These leaders believe that a WFTU split would be facilitated if US labor organizations give adequate support to international industrial unions that seek to remain independent of the WFTU but which, like the "Force Ouvriere," face great financial difficulties.

5. GERMANY: German reaction to CFM failure--US Ambassador Murphy reports that a small sampling of public opinion indicates that about 40% of the Germans consider the USSR responsible for the failure of the London CFM, but that only one percent blame the US for this failure. On the basis of preliminary information, Murphy believes that the German public is unimpressed by Soviet propaganda assertions that the USSR is the major advocate of a central German government. Murphy notes, however, that a number of the Germans interviewed believed that the US is creating a state of affairs which is disadvantageous to Germany.
6. AUSTRIA: USSR pressing sale of railroad equipment--US Legation Vienna has learned from a reliable source that the USSR is pressing for an Austrian delegation to come to Moscow early in January to discuss the possible payment by Austria of 400 million schillings for locomotives and rolling stock which the USSR claims as war booty. The USSR maintains that all locomotives and most of the rolling stock in the Soviet Zone are war booty lent to the Austrian Government. The US Legation observes that the equipment in question has never been recognized as captured enemy material either by the Austrians or by the Allies.
7. GREECE: Continuing friction in Government--US Charge Rankin reports that, when he delivered aide-memoires (expressing US concern over the Greek situation; see Daily Summary of 19 December, item 4) to Prime Minister Sophoulis and Deputy Prime Minister Tsaldaris, he gained "the distinct impression that relations between Populists and Liberals have degenerated to a dangerous point."

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Sephoulis informed Rankin that Tsaldaris was doing everything possible to make him resign, but he had no intention of doing so. Rankin adds that publication in the Greek press of the US view on the importance of continued Populist-Liberal cooperation has done much to alleviate public fear of an imminent change of government.

8. SWEDEN: Soviet propaganda on Germany--Sweden's Liberal Party (opposition) leader, Ohlin has expressed to US Ambassador Matthews the opinion that many uninformed Swedes have been taken in by the repeated Soviet propaganda line that the USSR favors, and the Western Powers oppose, a rehabilitated, self-governing Germany. Ohlin considers that the remedy for this situation is for the Western Powers, using Soviet tactics, to state repeatedly their own policy regarding Germany.

Request for US financial aid expected--Matthews also reports that the financial adviser to the Swedish Foreign Office (who is at present in Washington) has requested his Government's authority to ask for some form of US financial assistance in order to meet Sweden's financial and economic difficulties. The Swedish Riksbank president believes that the Swedish Government will authorize this request.

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10. NEI: US delegation's views on dispute--The US delegation to the Security Council's Good Offices Committee (GOC) believes that the Netherlands-Republic disagreement will center around: (a) the boundaries of the component states in the United States of Indonesia (USI); (b) the strength of representation of the various states in the USI; and (c) the extent of sovereignty to be accorded the USI following its establishment. The US delegation considers that there are only two solutions to the Indonesian dispute: the establishment of the USI in accordance with the present Dutch plan under Netherlands authority; or the recognition of the sovereignty of the Republic, either alone or as the dominant element in the USI. The US delegation admits the risks involved in both alternatives but recommends that the US work for one of the solutions because "there can be no compromise in questions of ultimate sovereignty."

THE AMERICAS

11. PANAMA: Rejection of defense-sites agreement foreseen--President Jimenez has informed the US Embassy Panama that he believes the National Assembly will reject the defense-sites agreement with the US "in toto."

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GENERAL

1. Cominform sees French and Italian struggles in first phase--US Embassy Belgrade reports that the third issue of the Cominform Bureau Journal, published on 17 December, describes the present French and Italian disorders as only the first phase in the struggle against "US domination". The journal states that in France, "new and heavy battles lie ahead of the working people" while in Italy recent Communist activities demonstrated that the "democratic" camp is capable of creating favorable conditions for Communist victory.
2. US sees no objection to Spaak's proposed Moscow visit-- The State Department, in response to Premier Spaak's inquiry (see Daily Summary of 18 December, item 5), has informed US Embassy Brussels that it has no objection to Spaak's proposed visit to the USSR. The Department believes that the USSR probably would seek to capitalize on such a visit so soon after the CFM, and it doubts that "Spaak or anyone else can do anything useful at this time about the 'Russian problem' except through a determined policy of patient firmness."

EUROPE

3. USSR: Kaganovich returns from Ukraine--US Charge Durbrow in Moscow reports that, according to the local press, Kaganovich has been renamed Deputy Chairman of the Council of Ministers. Durbrow comments that, if true, Kaganovich's return is an indication that the difficulties in the Ukraine, reported in 1947, have apparently been solved to the satisfaction of Soviet leaders.

(Kaganovich, one of the earliest members of the Politburo, is a notorious economic and Party "trouble-shooter". He was relieved of his position as Deputy Chairman of the Council of Ministers and Minister of Construction Materials in the spring of 1947 and sent to the Ukraine where problems concerning political loyalty and agricultural production had apparently arisen.)

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4. NORWAY: Western orientation held essential--Norwegian Foreign Minister Lange has told US Ambassador Bay that: (a) the London deadlock will help crystallize Norwegian policy in favor of the West, "where Norway belongs"; (b) while Norway must cultivate friendly relations with USSR as the two are neighbors, its basic policy must be pro-western; (c) Norway may vote against the US in individual instances, but it will always side with the US "in matters of important principle."

FAR EAST

5. SIAM: Opposition to present regime--According to US Embassy, Bangkok, ex-Premier Thamrong has informed the UK Naval Attache that he is prepared to oust by force the present Siamese regime by 1 January, if he is able to gain the support of the Siamese Navy. If Navy support is not forthcoming, Thamrong plans to bide his time and await a serious split which he expects to develop within the Army. [REDACTED] the Siamese Navy is planning to stage a coup, if Phibul and the Army try to control the elections in late January.

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(CIA Comment: The Siamese Navy is interested primarily preventing the Army from gaining complete control of the government, not in reinstituting Thamrong as Premier. The Navy has consistently supported civilian elements in the government and, in continuation of this policy, will tend to oppose overt Army control.)

6. INDONESIA: Viewpoints of Netherlands and Republic--Graham, the head of the US delegation to the Security Council's Good Offices Committee in Indonesia, reports that the Indonesian Republic intends: (a) to obtain from a third party a guarantee of its authority in Java, Sumatra and Madura; and (b) to achieve control of the archipelago either through a United States of Indonesia (USI) or by asserting dominance over the other islands. Graham believes that the Republic at this time only hopes to obtain the guarantee. According to Graham, the Netherlands' intention is to eliminate the Republic as a disruptive factor in Indonesia by confining it to Central Java and by creating a federal USI which would include the rest of the Republican territories. Dutch officials indicate that further police action, already

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rumored as impending, may be required to neutralize the Republic as a directing center for violence in Dutch-held areas.

THE AMERICAS

7. **CHILE: Arbitration of dispute over diplomats proposed to USSR--**
The Chilean Foreign Office has told US Ambassador Bowers that (a) Chile has transmitted to the USSR a formal proposal that the controversy over the joint return of diplomatic personnel be submitted to international arbitration or to the International Court of Justice; but (b) expects the proposal to be rejected and will then submit the issue to the UN Little Assembly.

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GENERAL

1. Saudi Arabia asks reconsideration of arms request--In a note transmitted to US Minister Childs at Jidda, King Ibn Saud has requested the US to reconsider its refusal to send arms to Saudi Arabia, on the ground that special US-Saudi Arabian relationships (based on mutual economic and strategic interests) should exclude his country from the US embargo on arms shipments to the Near East. The King states emphatically that the arms were requested only to protect oil installations and pipelines and would never be used in Palestine. The King adds that the establishment of the modern defense force he contemplates cannot take place immediately, and he suggests that a program of military assistance to his country be handled by a US military training mission.

2. US policy regarding Trieste--The Combined Chiefs of Staff have informed General Airey, US-UK Zone commander in Trieste, that under no circumstances will the US and the UK agree to any Yugoslav participation in the administration of the US-UK Zone and that any attempt on the part of the Yugoslavs to enter the US-UK Zone should be prevented by force. The Department of State has authorized US Embassy Belgrade, in the event of such an attempt by the Yugoslavs, to make immediate representations to the highest Yugoslav authorities available.

The Department has also informed the US Delegation at the UN of its belief that Yugoslav failure to gain control of Trieste illegally will prompt the USSR to press for agreement on a candidate for Governor of Trieste in order to gain control of the area by other means after the Governor takes office. The Department has therefore instructed the US Delegation to withhold approval on any candidate for Governor of Trieste until the "entire political-military situation has been reviewed" or at least until the Italian and Yugoslav Governments have been consulted by the President of the Security Council or the Secretary General of the UN.

3. US position on Spain--The Department of State has informed US Embassy Madrid that the US: (a) seeks a gradual return to normal

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relations between the US and Spain; (b) favors the broadest possible agreement among Spaniards and will encourage an orderly and peaceful evolution in Spain toward a free, democratic, and representative regime; (c) considers Franco's removal is a matter for Spanish decision but believes that his removal would improve Spain's international position; (d) hopes to convince the Army and Church elements now supporting Franco that the US anticipates an evolution which will not sacrifice their legitimate interests; (e) the US will coordinate any positive economic assistance to Spain with Spain's political development and employ such assistance to encourage democratic evolution; and (f) is informing the Vatican of the US position in the hope that the Holy See may encourage a similar evolution in Spain. X

EUROPE

4. GREECE: Public alarmed over discord in Government--US Charge Rankin reports that the Greek press and public are now "thoroughly alarmed" by the efforts of Populists and Liberals and members of several minor parties to embarrass the present Cabinet, through intrigue, if not to bring about its downfall. The atmosphere of crisis is so acute that Rankin has presented aide-memoires to Prime Minister Sophoulis and Deputy Prime Minister Tsaldaris expressing concern over the situation and urging continued cooperation between Liberals and Populists in the coalition Government.

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GENERAL

1. Increasing numbers of non-Communist refugees--US Charge Bruins in Prague reports that, with the growing tension in Eastern Europe, increasing numbers of non-Communists, mainly from Hungary, Rumania, Bulgaria and Poland, are appearing in eastern Czechoslovakia, hoping to enter the US Zone of Germany or "other points west." Bruins comments that many of the refugees, while not US citizens, have US relatives and their cases present "decidedly humanitarian aspects." He recommends that a "properly co-ordinated policy" with US military authorities in Germany be established.
2. Soviet-Italian trade talks in prospect--US Ambassador Dunn has learned from a high official of the Italian Foreign Office that the Italian Embassy in Moscow may now conduct preliminary trade discussions with the USSR. Dunn's informant requested the US attitude on trade negotiations at this time between the USSR and nations included in the European recovery program.

EUROPE

3. TRIESTE: Communists fail to incite disorders--US Political Adviser Joyce reports that Communist attempts to promote a general strike (originally forecast for 17 December; see Daily Summary of 15 December, item 3) and to incite disorders have failed because of "general lack of popular response." Joyce also attributes the Communist setback to the improved morale of pro-Italian groups resulting from the firm attitude of the Allied Military Government, but he believes that the Communists have not relaxed their anti-AMG press campaign and will continue their attempts to stir up internal disorders. Allied military and political authorities in Trieste now consider, however, that the Anglo-American position is "solid and that Slavo-Communist efforts to undermine and destroy the integrity of the US-UK Zone are under firm control."

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4. AUSTRIA: Petroleum shortage becoming critical--Commanding General Keyes, US Forces Austria, reports that the petroleum situation in Austria is becoming critical. The Soviet oil administration, which uses its control of petroleum shipments and prices to squeeze concessions from the Austrian Government, has reduced the December gasoline allocation by one-third and other petroleum products by lesser amounts. General Keyes believes that this latest Soviet maneuver is a deliberate attempt to further economic deterioration by compelling the Austrian Government to increase its petroleum purchases on the world market, for which it lacks sufficient dollar exchange.
5. BELGIUM: Spaak considers visit to USSR--Premier Spaak has indicated to US Charge Millard that he is considering a visit to Moscow, not only "to sign an agreement for 100,000 tons of wheat, but to discuss matters in the political sphere." Spaak expressed the belief that the US might regard such action as untimely and sought US views. Millard gave Spaak no direct encouragement. Millard observes that such a visit might present an opportunity "to look behind the present intransigent attitude of the Kremlin."
6. GREECE: Military and civilian morale in north reported low--According to US Embassy Athens, Colonel Miller (US military representative to UNSCOB) has noted "exceedingly low" morale among civilians in northwest Greece during a week's inspection tour and has concluded from personal observation that the Greek Army has lost its will to fight. The Embassy reports that Colonel Miller is pessimistic about the ability of US tactical advisers to arouse a sufficiently aggressive spirit in the Greek Army at this late date; he therefore is inclined to believe that more direct US or UN military intervention will be required, if the situation is to be saved.

FAR EAST

7. PHILIPPINES: Possibility of revolt discounted--US Military Attache Manila discounts reports from well-placed sources which point to a

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right-wing coup d'etat led by Brigadier General Mariano N. Castaneda, Chief of the Military Police Command. As to the possibility of a general uprising, the MA concurs with the US Commanding General's estimate of conditions favorable to a revolt (see Daily Summary of 16 December, item 2), but the MA does not consider that a revolt is likely in the near future. US Ambassador O'Neal, moreover, believes that the reported affiliation of certain right-wing elements with a coup d'etat is "fantastic" and reports that Roxas is "well-informed, but unconcerned."

(CIA Comment: President Roxas' lack of concern lends credence to the strong possibility that these rumors are part of a calculated campaign to obtain additional US assistance.)

THE AMERICAS

3. **DOMINICAN REPUBLIC: Arms purchases in Brazil and UK--**
US Embassy Rio reports that, in spite of Venezuela's protests, Brazil has decided to complete the sale of arms to Trujillo because it has received "written assurances" from the Dominican Republic that "the arms will be used for defensive purposes only."

The UK Foreign Office has told US Embassy London that the Dominican Government is now negotiating for the purchase of arms in the UK. The Foreign Office has requested US views regarding the sale of aircraft to Trujillo; it proposes, however, to grant export licenses for the purchase of other types of military and naval equipment, if Dominican representatives and UK suppliers conclude sales agreements.

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EUROPE

1. FRANCE: Serious weakening of CGT expected--US Ambassador Caffery reports that "many qualified observers" expect the CGT to lose at least two-thirds of its membership in January as a reaction to the recent Communist strikes. Caffery believes that the workers are well in advance of their labor leaders in this dissident movement and that even Jouhaux may have to make this break in the very near future.

(CIA Comment: Defections from the CGT have already occurred and may be expected to continue. However, because non-Communist dissident elements are in the minority in the CGT, CIA believes that this "two-thirds" estimate is too high.)

De Gaulle anticipates severe economic breakdown--De Gaulle's Press Officer has told US Embassy Paris that, despite the failure of the generalized strike, De Gaulle expects the Communists to continue their efforts to cripple key industries. According to the Press Officer, De Gaulle expects a deterioration in France's economic situation in late February and early March resulting in a "very serious economic breakdown." De Gaulle believes that Schuman's Government is as "ineffective and helpless" as Ramadier's, that it cannot prevent a breakdown, and that its failure to do so will cause De Gaulle's recall to power.

2. ITALY: Communist reaction to US policy statement--US Embassy Rome has been reliably informed that a leading Communist has told the Foreign Office that the Italian Communist Party resents "most strongly" President Truman's recent statement regarding Italy (on the occasion of the US troop withdrawal). The Communist leader inquired specifically if the Foreign Office believed that the US meant to go to war. The Foreign Office representative replied in the negative, but he commented that, from a juridical standpoint, the US statement seemed based on very solid ground. The Communist agreed and said that his Party did not intend "to start anything," but it could not predict "what the people might do,

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particularly because they were under a reactionary government and faced by a hard winter." The Foreign Office consequently considers that: (a) the Italian Communists are considerably shaken by President Truman's statement; and (b) the Communists will hesitate to start violent action but will not have the final decision.

3. GREECE: Imminent establishment of "democratic" government -- US Ambassador Caffery reports from Paris that, according to local Comintern circles, establishment of a Greek "democratic" government under General Markos will take place in the next day or two so as to follow immediately the breakdown of the CFM in London. Caffery's sources also said that: (a) the "democratic" government will be recognized officially by Bulgaria, Yugoslavia, Albania, and Rumania; and (b) both military and financial aid to "democratic Greece" will soon be greatly accelerated and will be made to appear spontaneous, as was the case during the Spanish Civil War.

(CIA Comment: The guerrilla government announced in June 1947 has proclaimed a constitution, conducted some elections in "free" areas, and issued numerous decrees, but it has been by definition a "provisional military regime." Establishment of a full-fledged civil government in the near future is a logical preliminary to the anticipated substantial increase in Satellite aid to the guerrilla forces.)

FAR EAST

4. CHINA: New Communist offensive in Manchuria--US Consul General Mukden reports that Communist forces in Manchuria are maneuvering, evidently in preparation for a winter offensive. According to the Consul General, the National Government forces: (a) have offered ineffective initial resistance to these maneuvers; and (b) are considering the advisability of abandoning Changchun and Kirin. The Consul General notes that despondency and demoralization are increasing among the people in Nationalist areas.

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GENERAL

1. Saudi Arabia rejects direct requests to break with US--Crown Prince Saud has informed US Minister Childs at Jidda that, in the current Arab League meeting at Cairo, Saudi Arabia has rejected requests by Iraq and Transjordan that it sever relations with the US and cancel the oil concessions, although it has backed other Arab plans to oppose Zionism. Prince Saud said his Government fully appreciates the US reasons for refusing to ship arms to the Near East but hopes that this policy will not continue indefinitely (see Daily Summary of 15 December, item 1).

FAR EAST

2. PHILIPPINES: Increasing rumors of revolt--The US Commanding General in Manila reports that: (a) rumors of impending revolution, which have persisted since the November elections, have increased; and (b) Philippine Communist leaders reportedly have organized disaffected guerrillas in 23 of the 50 provinces for a revolt on a national scale to take place "on Christmas or New Year's eve." The Commanding General believes that if "minority political groups, persons denied recognition as guerrillas, the Communist Party, and other organizations (including the Huk-balahaps)" are adequately united and coordinated under a strong leader and assisted by disaffection in the Military Police Command, this opposition is capable of overthrowing the present administration. The Commanding General considers that a revolt is a "positive possibility."

(CIA Comment: These rumors of imminent revolt may have been inspired by sources close to the Roxas administration in an effort to enlist US aid. Nevertheless CIA believes that: (a) present conditions in the Philippines could lead to widespread revolt initiated either by right-wing or left-wing disaffected groups, and possibly to an abrupt overthrow of the Roxas Government; but (b) the primary limiting factor at present is the lack of effective leadership in the Right and Left.)

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GENERAL

1. US considers it inadvisable to ship arms to Saudi Arabia--The Department of State has instructed US Minister Childs in Jidda to inform the Saudi Arabian Government that while the US maintains the strongest friendship for Saudi Arabia, the interests of peace can best be served if "the US should for the time being refrain from exporting arms and munitions to Palestine and neighboring countries." (The Saudi Arabian Government has been exploring the possibility of obtaining military supplies from the US; see Daily Summaries of 8 and 9 December, item 1.)
2. Saudi Arabia recruiting for Palestine armies--US Consul Henderson reports from Dhahran that King Ibn Saud has given orders for the organization of four armies to aid the Arabs in Palestine, and that recruiting of volunteers is being carried out in the Dhahran area.

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EUROPE

3. TRIESTE: Strike may begin on 17 December--US Political Adviser Joyce warns that a general strike on the Milan pattern may begin in Trieste on 17 December, the day scheduled for Security Council discussion of the Trieste Governorship. Joyce suggests that in the event Yugoslavia indicates its intention to enter Trieste in order to "maintain order," the Department consider an "energetic and immediate warning to the Belgrade Government."
4. RUMANIA: King Michael expected to return this week--US Legation Bern reports that, according to King Michael's secretary, the King and his suite will return to Rumania by train on 16 or 17 December. The secretary added that the Groza Government has disapproved of Michael's engagement to Princess Anne because of the "inauspicious" international situation.

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6. NETHERLANDS: Dutch impatient with present deadlock on NEI--
US Ambassador Baruch regards the forthcoming trip of the Netherlands Prime Minister to the NEI as a reflection of Dutch impatience with the "sterile, costly deadlock prevailing since 4 August."
Baruch says that opinion is growing in the Netherlands that unless some decisive change is evident and unless international permission can be obtained for the cleaning up of lawless elements in the NEI, the Netherlands might as well "pull out now as later."

NEAR EAST-AFRICA

6. TURKEY: Arabs urged to accept UN decision-- Turkish Foreign Minister Sadak has informed US Ambassador Wilson that he is urging the Arab states to accept calmly the UN decision on Palestine and to avoid violence. Sadak has advised the Arabs that if they cooperate in implementing the decision, they may be able to work out arrangements which will make the situation more acceptable. Sadak told Wilson that he believes Saudi Arabia and Transjordan are the least likely states to resort to extreme action, while the greatest agitation for such action comes from Egypt and Syria. Sadak added that if the US will use its influence with the Zionists to avoid bringing the new Jewish state under Soviet control or to prevent its being used for Soviet penetration of the Arab countries, the Palestine situation should become less dangerous.

(CIA Comment: Turkey's recommendations to the Arabs are motivated by fear that Soviet infiltration may result in a threat to Turkey's southern border. It is considered most unlikely that the Arabs will react favorably to these suggestions, as they feel that the immediate threat of Zionism is as dangerous to the Arab world as the future threat of Communism.)

7. EGYPT: Government refuses to renew US military air rights--
US Ambassador Tuck reports that the Egyptian Government has formally refused to renew US transit military air rights after 15 January 1948. Tuck attributes the refusal to Egypt's bitter resentment over the US stand on Palestine.

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8. CHINA: US aid requested in military training program--US Ambassador Stuart reports that Chiang Kai-shek has requested the assistance of the US Army Advisory Group in the organization of four replacement centers to train personnel for active guerrilla warfare. Stuart notes that Chinese public opinion tends to blame the US for the lack of success of recent Nationalist military efforts. Stuart urges that Chiang's request be granted because, in Stuart's view, any US aid which offers a prospect of success would enhance US prestige in China.

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GENERAL

1. De Gasperi fears Communist insurrectionary action---According to US Ambassador Caffery in Paris, Premier De Gasperi has informed the French Foreign Office through the Italian Ambassador at Paris that the situation in Italy is very serious and that De Gasperi fears the Italian Communists may resort about 20 December to some form of insurrectionary action particularly in North Italy. De Gasperi believes that his Government can eventually put down a revolt but that, if the Italian Communists receive substantial help from the French Communists, the Italian Government's ability to deal with the Italian Communists would be seriously impaired. De Gasperi therefore proposed that immediate contact be made between French and Italian military and civil intelligence with a view to thwarting the Communists in both countries.

Caffery has been reliably informed that the French have agreed to the proposal and contact has already been established as suggested.

(CIA Comment: In view of the existing inadequacies in arms and equipment of the Italian Army and security troops, CIA believes that the Italian Communists at present have the capability of obtaining temporary control of Northern Italy. If the Italian Communists receive material assistance from the French and/or the Yugoslav Communists, the Italian Government would probably not be able to regain control of North Italy unaided.)

2. USSR reported offering to sell arms to Arabs---According to US Ambassador Wilson in Ankara, the Director of Turkish Military Intelligence has received "fairly reliable" information that the USSR is offering to sell arms to the Arabs through Czech intermediaries in Lebanon and Syria.

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EUROPE

1. TRIESTE: Communist preparations for general strike under way--
US Political Adviser Joyce reports indications that the Communists have finally received directives to take action in Trieste similar to that in France and Italy. Joyce expects a general strike and increased Communist efforts to incite "acts of provocation" by the US-UK authorities. The Political Adviser states that demonstrations backed by a "menacing" Communist press are agitating against the AMG, ignoring AMG requirements for licenses to hold public meetings, and charging "fascist brutality" when police intervene to control the demonstrations. Joyce adds that General Airey is tightening controls to meet the emergency.
2. GERMANY: US grain shipments held inadequate--Acting US Political Adviser Chase observes that shipments to the Western Zones Germany of cereals allocated for January 1948 are not sufficient to maintain the present ration in the bizonal area. Chase points out that a similar deficiency last spring caused serious difficulties in the Ruhr and elsewhere. OMGUS believes that unless the commitment to ship 300,000 tons of cereals per month is fulfilled, US prestige in Germany will be damaged, and the internal problem of agricultural collections will become even more difficult.
3. AUSTRIA: US may protest Soviet-Austrian currency agreement--
US Minister Erhardt has recommended to US Commanding General Keyes that a protest be made in the Allied Council against the Soviet-Austrian currency conversion agreement (see Daily Summary of 4 December, item 6). Erhardt suggests that the object of the protest would be to prevent similar bilateral agreements after termination of the CFM meeting, when the USSR might succeed in exchanging a withdrawal of Soviet troops from Austria for a bilateral settlement of the German assets question.

Keyes again urges ration increase--General Keyes has reiterated the necessity of increasing the Austrian calorie ration to 1800 units as soon as possible in order to bolster the Austrian Government in anticipation of a failure of the CFM to agree on an Austrian treaty.

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GENERAL

1. Jewish Agency seeks US aid--Jewish Agency leaders have told Department of State officials that the Jews in Palestine need all types of weapons, including small arms, planes, tanks, and anti-aircraft artillery, as well as military advisers to direct operations. The Jewish officials said that if they could not get such assistance from the US, they would be forced to turn "elsewhere" for it. The leaders added that they would be unable to stop illegal immigration unless a Palestine seaport were made available for increased legal immigration at an early date. The Jewish leaders also asked that the US delegation to the UN be instructed to make a statement which would impress upon the Arab world that the US is still behind the UN partition plan.

EUROPE

2. FRANCE: Estimated effects of strikes--US Embassy Paris gives the following preliminary estimate of relative gains scored by the Schuman Government and the Communists as a result of the recent strikes and their conclusion. The Embassy considers that the Government succeeded in: (a) enhancing its prestige by standing firm against the Communists and invoking energetic measures to guarantee freedom of work; and (b) pointing up to the French people the anti-national character of French Communist efforts to disrupt the national economy. The Embassy adds that by the action which Moscow compelled them to take, the Communists have alienated the great majority of the French people and have enormously helped the non-Communist Left in its efforts to break Communist control of labor.

On the other hand, the Embassy considers that in their campaign to sabotage the European recovery program, the Communists have: (a) seriously crippled the French economy and partially nullified France's anticipated benefits through the recovery program; (b) severely compromised the Government's efforts to balance the budget; and (c) greatly increased the Government's difficulties in attaining economic and financial stability.

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USSR cancels talks on grain shipments--The Embassy also reports that the USSR has advised France that, as a result of the expulsion of the Soviet Military Commission, the projected discussions in Moscow concerning shipments of wheat to France have been cancelled. The French had hoped to obtain 25,000 tons of grain in return for French products and to discuss the delivery by the USSR of an additional 300,000 tons before 1 August 1948.

3. GERMANY: USSR may force CDU leader's resignation--US Ambassador Murphy reports that the Soviet Military Administration has demanded the resignation of Jakob Kaiser, chairman of the Christian Democratic Union (CDU), because of his recent speech attacking the Soviet-sponsored Unity Congress and demanding revision of the eastern boundaries of Germany. Kaiser reportedly has refused to resign except on direct order of the Soviet Administration or as a result of a non-confidence vote from his party. Kaiser expects that Soviet officials will not allow this vote to be taken, and he will then probably disband the party.

(CIA Comment: Because of his many disputes with the SMA, Kaiser will probably be forced from leadership of the Soviet Zone CDU, but he may retain control of the Berlin wing of the party and flee to the western Zones for protection.)

4. BULGARIA: Soviet troop withdrawal under way--US Military Attache Sofia reports that numerous reports and "direct observation" indicate that Soviet troop withdrawal from Bulgaria is probably under way, but that inadequacy of Bulgarian transportation facilities will delay Soviet evacuation until 26 December.
5. GREECE: Parliament enacts drastic anti-strike law--US Charge Keeley reports that the Greek Parliament has enacted an emergency law prohibiting all collective work stoppages by either workers or employers for the duration of the present rebellion. Keeley states that the measure is considered unnecessary by AMAG and

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the Embassy labor advisers, is criticized both by labor leaders and by industrialists in Athens, and will undoubtedly give ammunition to those who criticize the Greek Government as reactionary. Keeley adds, however, that Deputy Prime Minister Tsaldaris (following conversations with Embassy and AMAG representatives) stated that the law would be held in reserve and employed only in an emergency where less drastic measures fail.

Communists may increase urban sabotage and terrorization--
US Military Attache Athens reports that, according to the Greek General Staff, the Central Committee of KKE (Greek Communist Party) is attempting to determine the number of reliable members of the Communist Party in Athens who would be willing to participate in a KKE "armed struggle." The MA adds that KKE plans reportedly provide that party members unable "for any reason" to participate in the armed struggle will be organized into teams for espionage, press, propaganda, medical, and similar duties. The MA believes that these plans may result in increased Communist emphasis on organized sabotage and terrorization in Athens, Salonika, and other urban areas heretofore relatively quiet.

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EUROPE

1. ITALY: Appeal to USSR for grain held inadvisable by Dunn--In reply to a suggestion from the Department of State that De Gasperi approach the USSR for the 500,000 tons of wheat Italy needs to avoid a ration cut, US Ambassador Dunn expresses the belief that such a course would be "exceedingly inadvisable." Dunn points out that De Gasperi has previously repudiated the Communist Party and that the USSR might condition such assistance by a demand that Communists be allowed to re-enter the Italian Government. Dunn reiterates his warning that any cut in the Italian bread ration will greatly imperil the success of the whole US policy toward Italy and urges that some other method be found to alleviate the serious bread shortage in Italy.

US Army to be withdrawn completely--The Department of State has informed US Embassy Rome that: (a) US forces will be withdrawn from Italy on 14 December; (b) the suggested transfer of these forces to Libya is considered inadvisable on military grounds; and (c) compensatory strengthening of US forces in Austria is believed impracticable at this time.

2. TRIESTE: Funds for information program urged--US Political Adviser Joyce reports that the Allied Information Service (AIS) in Trieste will cease by 31 December unless additional US funds are received immediately. Joyce states that AIS is the only weapon available to US-UK authorities to combat the incessant Communist and Yugoslav anti-US propaganda which is approaching "climactic proportions."

NEAR EAST-AFRICA

3. TURKEY: Loss of confidence in US leadership reported--US Ambassador Wilson reports that US "moral and political leadership" has suffered in Turkey as the result of the US stand on Palestine. Wilson declares that: (a) the Turks had built great hopes on the solidarity of the Arab countries with the US and UK in making a joint effort

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"to keep Soviet Communism out of the Middle East;" (b) the Turks feel that US policy has been characterized by cynicism concerning domestic political considerations and by naivete in the failure to foresee the potentialities of Soviet exploitation; and (c) the Turks are convinced that the US played a decisive role in obtaining the UN vote on partition by exerting pressure on various small countries. Wilson adds, however, that the loss of confidence in US leadership is not "necessarily irreparable," and that Turkish views will be influenced by future developments in Palestine, particularly by US ability to regain the confidence of the Arabs and to counter Soviet infiltration effectively.

FAR EAST

4. CHINA: Communist anti-US propaganda increasingly effective-- US Ambassador Stuart reports that unrelenting Chinese Communist propaganda charging US imperialism in China, supplemented by similar Soviet propaganda, is now having a significant effect on Chinese public opinion, particularly among university and intellectual groups. Stuart also notes a tendency on the part of the Chinese National Government to play down Soviet expansionism. He urges, therefore, that the United States Information Service (USIS) undertake a positive program to demonstrate that the real imperialist power in the Far East is the USSR.

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GENERAL

1. Ibn Saud hopes to obtain motorized equipment and planes from US--US Minister Childs has been informed by a representative of King Ibn Saud of Saudi Arabia that the kind of aid which the King hopes to obtain from the US includes equipment for two motorized divisions and some fifty military aircraft (see Daily Summary of 8 December, item 1). The representative added that the Saudi Arabian delegation to the Arab League meetings in Cairo has been instructed: (a) to avoid being drawn into any plan which might bring the Arab world into conflict with the US and UK; but (b) to support all others measures against the partition of Palestine.
2. Palestine police fear safety of UN Commission--US Consul General Macatee reports from Jerusalem that the Palestine police have stated that protection of the UN Commission would be beyond police resources if the Commission establishes headquarters anywhere other than at Tel Aviv. Macatee believes that the British will do everything they can to protect the Commission, but that after the British withdrawal the "security of the Commission will present an acute problem."
3. US anticipates requests to ship military supplies to Palestine--The Department of State has informed Secretary Marshall in London that it proposes to answer anticipated requests from the Zionist Organization of America for permission to export military supplies to Palestine by pointing out that: (a) in the period preceding termination of the mandate, requests for military supplies should be made to British authorities in Palestine; and (b) following termination of the mandate, requests should be made to the UN five-power commission on Palestine.

EUROPE

4. FRANCE: Tripartite discussions on Germany suggested--A high-ranking official of the French Foreign Office has suggested to US Ambassador Caffery that because the current session of the CFM seems likely to end in complete failure, the US, the UK, and France should plan now to

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continue conversations on the German problem immediately after CFM adjournment. The official considers it of "paramount importance" that the three western powers should reach agreement on Germany and has suggested that deputies of the Foreign Ministers should hold such discussions in Washington.

The official commented that any decisions reached as the result of such talks would represent "real progress" because if De Gaulle should return to power in the next few months, the General would be unable "to undo agreements which have already been concluded."

5. RUMANIA: New anti-Communist resistance movement reported--The US Military and Naval Attaches have learned from the former CARE representative in Rumania that a new Rumanian resistance movement is being organized and will be composed mainly of young men with military experience who have been educated in France and England. Source states that the organization is "sound and means business" and expects to have a supply and training base in Turkey or Greece.

(CIA Comment: Although scattered resistance and underground groups still exist in Rumania, this is the first report of a cohesive group with long-range plans, organized on a national basis. Although such a group has no chance of immediate success in overthrowing the Government, its existence will bolster the hope of the non-Communists and require the Government to maintain indefinitely its repressive police controls.)

6. GREECE: Integration of US and UK military missions recommended--US Embassy Athens and AMAG Chief Griswold recommend a complete integration of the US and UK military missions in Greece, with General Livesay of AMAG as chief and General Rawlins of the British mission as deputy. If this arrangement is not feasible (in view of the UK's policy against furnishing operational advice to the Greeks), it is suggested that an integrated planning staff be created in which US personnel would handle operational advice and supply matters and British personnel would be responsible for training.

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FAR EAST

7. **FRENCH INDOCHINA: Bollaert-Bao Dai meeting**--US Consul Reed in Saigon has been told by a usually reliable source that a protocol was signed at the recent meeting between French High Commissioner Bollaert and ex-Emperor Bao Dai. The agreement reportedly grants independence to Vietnam within the French Union but retains French control over the Vietnamese Army and French direction of foreign affairs. Source also reports that Bollaert will attempt to obtain approval of the protocol during his forthcoming visit to Paris.

Source believes that even though many "resistants" may join Bao Dai, the problem of achieving peace in Indochina remains unsolved because President Ho Chi Minh of the Vietnam Republic continues strong.

8. **KOREA: Future Soviet tactics in Korea**--General Hodge has been told by a usually reliable source that at a conference of high ranking North Korean and Soviet military and governmental officials, held on 19 November in Pyongyang, the following tactics were discussed: (a) a decrease of electric-power supply to South Korea in order to cause unemployment and widespread unrest; (b) the organization of a strong fifth column in important South Korean cities; (c) the withdrawal of Soviet forces following the establishment of an independent North Korean government "according to the desires" of the North Korean people, despite UN action; (d) the maintenance of the People's Army in a state of readiness to occupy South Korea with the aid of the fifth column.

(CIA Comment: The North Korean Peoples Council is now preparing a "provisional Korean constitution" which would provide a "legal" basis for formal Soviet recognition of the North Korean regime. CIA believes that the USSR will initiate a series of moves similar to those indicated in this report in an effort to force the withdrawal of US forces and to frustrate implementation of the UN resolution on Korea.)

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GENERAL

1. Reported pressure on Ibn Saud to break with US--US Minister Childs in Jidda has been informed by King Ibn Saud, in an extraordinary two-day audience at Riyadh, that while the King must make common cause with the other Arab states on the Palestine issue, he does not anticipate being drawn into conflict with friendly western powers over this question. The King added that the Arab League (particularly Iraq and Transjordan) would attempt to draw him into "direct conflict politically or economically with the US," and that pressure would be exerted on him to cancel the oil concessions. The King informed Childs that it is of the highest importance for him to know as soon as possible to what extent Saudi Arabia could count on US aid in resisting any incursion from Iraq or Transjordan which might result from his refusal to give in to this pressure.
2. Czechoslovakia reported aiding Soviet air expansion in Middle East--US Ambassador Wilson at Ankara has learned from a Turkish Foreign Office official that: (a) a Czechoslovak aviation mission, scheduled to arrive in Ankara on 7 December, is en route to the Middle East for the purpose of extending Czechoslovak Airlines (CSA) "to India, the Persian Gulf, and the Arab countries"; (b) the mission, except for two Social Democrats, is composed of Communist Party members; (c) the mission was undertaken at the instigation of a high Soviet aviation official following his recent visit to Prague.

(CIA Comment: Although the August visit to Prague of the Soviet Deputy Chief of Civil Aviation was purportedly for discussions concerning the Soviet-Czechoslovak air agreement, it was suspected at that time that the USSR was using the discussions to draw CSA into the Soviet orbit (see Weekly Summary of 12 September, page ii). This report, however, provides the first suggestion that the USSR may be supporting Czechoslovak efforts to establish air services in the Middle East.)

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Auth: DDA REG. 77/1763

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EUROPE

3. **ITALY: Communists may attempt coup in February--US Commanding General Mediterranean estimates that a Communist coup will be attempted sometime in February and that Yugoslavia will probably exert pressure in order to pin down Italian forces near the Yugoslav border. He observes that the Communists have already "achieved some measure of success" in that they have physically assembled their own para-military organization.**

A representative of Premier De Gasperi has expressed to US Ambassador Dunn the belief that the Communists will attempt to overthrow the Government before the March elections. De Gasperi's representative doubts that present military and police equipment is adequate for defeating such a coup; Dunn concurs in this view.

De Gasperi believes Italian forces need arms--De Gasperi has told US Ambassador Dunn that a US military mission to Italy would be inadvisable at this time and that if Italian forces are well directed they should be able to cope with any internal disturbances. De Gasperi feels, however, that Italian forces are in urgent need of additional arms and equipment. In connection with the withdrawal of US forces from Italy, De Gasperi emphasized his view of the importance of strengthening US forces in Austria.

4. **FRANCE: Official analysis of Communist tactics--US Ambassador Caffery reports that top French officials accept the following analysis of the Soviet position on the situation in Western Europe: (a) the tempo of the Communist Party's revolutionary activity in France and Italy must be accelerated in order to neutralize the European recovery program; (b) the democratic governments in Western Europe would not be able to counteract the revolutionary action of a small group of determined, militant Communists, and the US would not intervene directly; and (c) the Communists in France and Italy do not intend to achieve power at this time by a coup but rather to cause the collapse of the democratic governments by a series of strong economic, social, and political blows.**

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High-ranking French officials have expressed to Caffery their confidence that the French Government will be able to cope with the Communists in the present struggle, though they believe that some violence will continue for several weeks.

Mayer sees upward wage-price adjustments necessary-- Finance Minister Mayer has told Caffery that further upward adjustments of industrial prices and wages are to be expected; Mayer expects that a "provisional" stabilization of these prices and wages can be achieved after they reach their peak about 1 January 1948. Mayer believes that if he remains in office, a "definite" stabilization should be possible by June 1948.

Jouhaux hesitates to break with CGT--Caffery has learned from Leon Blum that although the mass of non-Communist workers in the CGT desire to break with that organization, their leader (Jouhaux) is still hesitating and wants the Communists to initiate the break. Blum is convinced that the Communists will not do so, although he believes that a break is "inevitable eventually."

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GENERAL

1. British plans for Palestine withdrawal--Foreign Minister Bevin has informed Secretary Marshall of the British plans for withdrawal from Palestine and of the difficulties expected by the UK if the UN Commission should arrive in Palestine more than two weeks before the British are ready to hand over authority to the Commission (which, according to plan, will be about 15 May). Bevin states that the British object during the interim period will be to maintain the status quo in all respects, particularly regarding immigration. Bevin added that his government had recommended forbearance and moderation to Arab representatives and had received assurances from various spokesmen that they will not try to make trouble while the British are still in Palestine. Bevin expressed the hope that the US: (a) would make similar recommendations to Jewish representatives; and (b) would "continue and intensify the measures" recently initiated to restrain those involved in organizing immigration.

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2. Soviet Ambassador to Argentina reportedly fears mission failure--
[REDACTED] (a) the Soviet Ambassador will not return to Argentina from his 5 December journey to Moscow, contrary to his announced intention to make a three-month visit; and (b) the Ambassador fears that the USSR considers his mission in Argentina a failure.

(CIA Comment: Because Argentina is the country in Latin America best able to oppose the policies of the US, the USSR has made an unusual effort to counter-balance US influence in that country. It is probable that the USSR now no longer believes that Argentina can be diverted from its pro-US orientation.)

3. China intends to maintain stand on Japanese peace talks--The Chinese Vice Minister of Foreign Affairs has informed US Ambassador Stuart that the Chinese Government, in reply to the 27 November Soviet note demanding that the Four Powers hold a preliminary Japanese peace conference in China next month, intends to maintain the earlier Chinese position that: (a) peace negotiations should be conducted by all nations represented on the Far Eastern Commission;

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and (b) voting should be in accord with FEC voting procedure (by which each of the Four Powers has veto rights). The Vice Minister told Stuart that China's fear of offending the USSR was blocking Chinese participation in any peace talks to which the Soviet Union was not a party. Stuart comments that China is "obviously afraid to make any other move until it knows more about US policy."

EUROPE

4. FRANCE: Government seeks to conciliate De Gaulle--US Ambassador Caffery has been informed that De Gaulle's approval was indirectly obtained for the recent appointment of two inspectors general who will have direct administrative and military authority in Provence and Languedoc. Caffery's informant, who declared that the Government is doing its best to avoid De Gaulle's open opposition, believes that this conciliatory attitude, together with De Gaulle's belief that the present Government is a useful interim solution, accounts for De Gaulle's recent silence.
5. AUSTRIA: Soviet policy in currency negotiations--US Minister Erhardt notes that in the recent negotiations concerning the Austrian currency conversion law the USSR seemed unprepared to promote economic partition of Austria at this time. Erhardt observes that the Austrian Government showed a tendency to make substantial economic concessions to the USSR, while at the same time taking US aid for granted.

NEAR EAST-AFRICA

6. IRAN: Qavam maneuvering to retain Premiership--US Embassy Tehran reports indications that Prime Minister Qavam, in a desperate attempt to retain his position, may have made a deal with the Shah which will allow him to continue as Prime Minister (see Weekly Summary of 5 December, page iii).

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7. **BRAZIL:** Communist tactics change--US Embassy Rio reports that the Communists in Brazil have apparently shifted their line from passive resistance to a campaign of violence and that Communist-inspired disturbances have occurred during the past two weeks in a number of important Brazilian cities. The Embassy expresses the opinion that the Communists are not strong enough to create serious trouble but are largely employing tactics of harrassment.

C O R R E C T I O N

In Weekly Summary No. 76 of 5 December, page ii, line 20, and page 3, line 1, the phrase "indecisive military activity" should be substituted for "military inactivity."

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GENERAL

1. Recall of British troops from Greece not now contemplated--UK
Foreign Minister Bevin has reassured US Ambassador Douglas that: (a) recall of British troops from Greece is not now contemplated; and (b) no steps for the recall of the UK's forces in Greece will be taken without providing the US an opportunity for discussion. Bevin told Douglas that the transportation needed for UK troop withdrawals will not be available before March 1948.

EUROPE

2. BELGIUM: Belgian and French Communists to cooperate--A French official has told US Embassy Paris that French police recently confiscated a Communist document which indicates that the Belgian and French Communist parties are planning to coordinate a strong effort to prevent the opening of the mines in northern France. The Embassy's informant asserted that Belgian Communists were to furnish both arms and "hardened militants."

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[REDACTED] a Belgian Communist Party leader told a meeting of "elite members" in late November that it is necessary "to aid our French comrades" and that the French strikes will be followed with similar action in Belgian about 1 January 1948.

3. SPAIN: Reaction to US aid in UN--US Military Attache Madrid reports that US opposition in the UN to further denunciations of the Franco regime has caused members of the Falange to expect monetary help immediately from the US and has led centrist leaders to believe that Spain will come under US protection, thus "promoting peace and prosperity." The MA reports also that the Left is "bitterly disappointed" and that the divergence between the Spanish Right and Left is now sharper than before.

(CIA Comment: These reactions will tend to sharpen and prolong the national division between the winners and losers of Spanish civil war. Franco's domestic position is strengthened in

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proportion to the extent that Spaniards believe he will gain US aid. Prospects that the Army will switch its backing to a more moderate leadership are correspondingly reduced.)

4. **AUSTRIA: USSR demands Communist police chief in Lower Austria--** US Minister Erhardt reports that the Deputy Commander of the Soviet Forces in Austria has demanded that the Austrian Minister of Interior immediately replace the present Director of Public Safety of Lower Austria with Duermayer, until recently chief of the Vienna State Police and a Communist.

(CIA Comment: An aggressive Communist, Duermayer is believed to enjoy complete Soviet confidence. As Chief of Public Safety in Lower Austria, he would obviously consolidate Soviet controls over this important province.)

5. **BULGARIA: Soviet preparations to withdraw troops observed--** US Charge Horner reports indications that the USSR is preparing to withdraw its troops by the 15 December deadline. "Several reliable sources" have observed Soviet concentrations of freight cars and artillery and have noted the evacuation of Soviet families. Horner indicates, however, that "western military sources" believe it will be difficult for the USSR to complete military evacuation in the time remaining without leaving some heavy equipment behind, and that such equipment could conceivably be stockpiled for future use. Horner considers it probable that if the USSR withdraws, some military cadres will remain in the guise of instructors to the Bulgarian Army, and their retention will be covered by a special agreement with the Bulgarian Government.

NEAR EAST-AFRICA

6. **PALESTINE: Mufti tells Arab Higher Executive to curb disorders--** US Consul General Macatee reports from Jerusalem that the Arab Higher Executive has been instructed by the Grand Mufti to do everything possible to curb the present disorders in Palestine. (The governments of all of the Arab states are similarly attempting to discourage "unauthorized" anti-partition disturbances.)

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GENERAL

1. Arabs planning military action in Palestine--King Farouk has informed US Ambassador Tuck in Cairo that: (a) Egypt, in full accord with the other Arab countries, intends to resist the partition of Palestine by force of arms but will make no military move until the British withdraw from Palestine; (b) instructions have gone out to the other Arab capitals regarding the coordination of military and economic plans for the conflict; (c) there might exist "the tragic spectacle" of Arabs fighting Americans if the UN should send an international force to Palestine to maintain order; and (d) a number of Soviet Jewish saboteurs have been apprehended in Egyptian territory. Tuck concludes from the King's remarks that "there is no doubt" of Egypt's intention to play its part in militarily opposing the Jews in Palestine and that the King intends, if possible, to play a leading role in coordinating and organizing Arab resistance.

(CIA Comment: The acts of violence, sporadic rioting, and anti-US demonstrations reported by US representatives in various parts of the Arab world can be regarded merely as a prelude to the concerted Arab action which, as King Farouk indicates, will take place after the UK withdraws its forces and administration from Palestine.)

2. US pipeline operations may have to be suspended in Levant--An official of the Trans-Arabian Pipeline Company has informed US Minister Pinkerton in Beirut that the gravity of the situation in Transjordan and Syria and the probability of trouble in Lebanon are making it essential that all pipeline operations in the Levant area be suspended, at least temporarily. The official states that US policy on Palestine is not only affecting oil interests but is also creating a situation which menaces US lives and property in the Middle East and is rapidly destroying the constructive influence of such institutions as the American University at Beirut.

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NO CHANGE in Class. ☐☐ DECLASSIFIED

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Auth: DDA REG. 77/1763

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3. DP screening in US Zone Germany held inadequate--Acting US Political Adviser Chase in Berlin reports his view, in connection with the Venezuelan Government's concern over possible Communist infiltration through the immigration of European DP's, that security screening in the DP camps (US Zone Germany) is inadequate. Chase points out that any information about the Communist affiliations or activities of the DP's is probably unobtainable unless they engage openly in such activities. The British and French are reportedly also having difficulty in screening out DP's who are emigrating to areas of British and French interest.

EUROPE

4. FRANCE: Communists increasing violent action--A "high-ranking Interior Ministry official" has expressed to US Embassy Paris his concern over the increasing tendency of Communist shock troops to attempt sabotage and to provoke the police to militant action. The official said that such actions might eventually cause the Government to outlaw the Communist Party. The official was puzzled by the apparent readiness of the USSR to risk driving underground "one of the best-organized Communist parties in Europe" unless this reflected "Soviet willingness to face general war in the near future." US Embassy and US Military Attache Paris are skeptical of this conclusion. They consider that the official perhaps exaggerates the present importance to the Kremlin of the French Communist Party.

(CIA Comment: In its efforts to sabotage the European recovery program, which is the USSR's immediate and primary target, the Kremlin will be willing even to risk the sacrifice of the French and Italian Communist Parties. If these Parties are defeated and driven underground, the USSR will have lost no more than it would lose by the success of the European recovery program. CIA believes that the unexpectedly rapid progress of the Marshall program has upset the timetable of the Kremlin and forced this desperate action as the last available countermeasure.)

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5. GERMANY: Communists attempting to promote strikes in western zone-- Headquarters European Command Frankfurt reports that there have been recent Communist efforts to promote strikes in the western zone of Germany during the latter part of November but that such efforts received little support. EUCOM considers that these Soviet efforts are actually only harassing measures aimed at occupation powers and are not connected with recent disturbances in France and Italy.

(CIA Comment: CIA believes that these disturbances have all been coordinated as part of a general attack on European recovery.)

6. AUSTRIA: Soviet-Austrian currency conversion agreement signed-- US Commanding General Keyes in Austria reports that a currency conversion agreement, newly signed by Austrian and Soviet representatives, provides for Austrian payment to the USSR of 490 million schillings in partial satisfaction of Soviet claims. Keyes adds that there are indications that another 16 million schillings will complete the Soviet claim.

7. GREECE: Embassy concerned over growing friction in Government-- US Charge Keeley reports that cordiality in the Liberal-Populist Government has been strained to the point where the continued existence of the coalition may be threatened. Keeley has emphasized to an influential Liberal leader in the Cabinet the necessity for making the coalition work "as the present critical period in Greek history is no time for a political crisis." Keeley states that he intends "to speak frankly" on the urgency of the situation to Sophoulis, Foreign Minister Tsaldaris, and to other politicians of both parties.

FAR EAST

8. SIAM: Broadened stability of new regime-- US Naval Attache Bangkok believes that militant opposition to the new Siamese Government is breaking up. Both Nai Pridi, Free Thai leader now in Singapore, and the ousted premier, Thamrong, have issued orders against any uprising on the part of the Free Thai movement. Furthermore, Thamrong has twice refused assistance offered by the Chinese Communists in Siam. The NA believes it "most probable" that Marshal Phibul, coup leader, is firmly entrenched.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

No significant new development.

GREECE

The Greek coalition government may be endangered by the growing tendency of center deputies to consolidate with the Liberal (centrist) Party of Prime Minister Sophoulis. Although Liberal Party spokesmen disclaim any immediate intention of upsetting the government, centrist elements in general are becoming increasingly impatient with the partisan politics of Populist (royalist) leader Tsaldaris.

CHINA

No significant new development.

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GENERAL

1. USSR reportedly preparing to withdraw troops from Bulgaria--US Military and Naval Attaches Bucharest have been informed by a "reliable" source that the USSR has requisitioned 2500 railway cars for "movement from Bulgaria" during the first week of December. The Attaches add that this report is the first indication that the USSR is preparing to withdraw its troops from Bulgaria and therefore the Attaches do not accept it as final.

US Minister Schoenfeld relays from a "good source" a current Rumanian Communist rumor that the Bulgarian Government will announce a Soviet-Bulgarian agreement or alliance permitting the retention of Soviet troops in Bulgaria.

(CIA Comment: CIA has received no previous indication that the USSR is preparing to withdraw its troops by 15 December as required by the peace treaty. Moreover, the rumored agreement would be a logical basis for the retention of the troops.)

EUROPE

2. FRANCE: Schuman optimistic regarding situation--US Embassy Paris has learned that Premier Schuman believes the general situation to be definitely improved, and he is confident that he will defeat the Communist effort to thrust him out of office.

The Embassy has also been told that militant anti-Communist trade unionists are optimistic over recent strike developments because several of the strikes have failed and because a majority of the French public now realize the anti-national character of the French Communist Party. The trade unionists believe, however, that the Schuman Government made a serious mistake by introducing a strike control bill which goes too far in its sanctions against strikers. Although the unionists admit that the bill would be helpful against "Communist saboteurs," many anti-Communist socialist leaders disapprove of the present bill because of their fear that it might be used later as "a club against the working class" if De Gaulle were to come to power.

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3. **ITALY: Transfer of US troops to Libya proposed--US Ambassador Dunn suggests that in order to avoid the possibly unfortunate situation which may follow the withdrawal of US troops from Italy, these troops might be transferred to nearby Libya, ostensibly to assist the British in the administration of the ex-Italian colonies. Dunn feels that the presence of US forces in Libya would have a "beneficial effect" on Italian public opinion and would meet with the approval of the Prime Minister and the Italian Government.**
4. **GREECE: Government considering further anti-inflation measures--AMAG Chief Griswold reports that the Greek Government is considering additional economic measures to meet a new inflationary threat which is caused partially by the over-extension of bank credit to industrial organizations. Griswold states that the officials of Greek industrial organizations are, moreover, using bank loans for the purchase of gold sovereigns, thereby increasing the price of gold which in turn defeats the objective of credit curtailment and threatens the stability of the Government.**

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

No significant new development.

GREECE

No significant new development.

CHINA

Anti-inflation measures just adopted by the National Government may thwart efforts by the Kuomintang right-wing CC Clique to intensify inflationary trends (see item 7).

Document No. 052NO CHANGE in Class. ☐☐ DECLASSIFIEDClass. CHANGED TO: TS S 0

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 4 APR 1978

By: 023

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GENERAL

1. **British appraisal of Italian situation**--According to US Ambassador Douglas in London, the UK Foreign Office considers that the present disturbances in Italy are not sporadic and that the situation there, as in France, indicates a concerted Soviet plan. The Foreign Office expects no armed attacks upon Italy from the outside while US and UK troops remain in Trieste.

EUROPE

2. **FRANCE: Schuman to "mobilize" labor**--The head of Prime Minister Schuman's personal Cabinet has informed US Ambassador Caffery that the Cabinet has agreed "in principle" on a six-months' mobilization of railroad workers, metal workers, flour-mill employees, dockers, and miners and on the "requisition" of government workers by decree. Source declared that every possible effort is being made to strengthen non-Communist labor elements and that, in order to avoid alienating these elements, Schuman will resort to forceful steps only "as a last resort."

De Gaulle by-passing Socialist leadership--Although General de Benouville, one of De Gaulle's close advisers, has alleged to US Embassy Paris that De Gaulle is striving for the support of the non-Communist left, De Benouville admitted that De Gaulle is by-passing the Socialist leadership and hopes to come to direct agreement with important labor leaders.

3. **NETHERLANDS: Possible cabinet crisis over NEI troop withdrawals**--US Military Attache The Hague reports that a cabinet crisis may be precipitated by the issue of extended service for volunteer Netherlands troop units in the NEI. Lieutenant General Spoor, commanding general in the NEI, has declared that he cannot hold presently occupied areas without retaining the volunteer units. War Minister Fievez is rumored ready to resign if he is unable to fulfill his promise to the volunteers that they will be repatriated at the end of two years' service.

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4. USSR: Derationing and replacement of currency rumored--US
Embassy Moscow reports that the recurrent and widespread rumors of an early replacement of the present Soviet currency have brought about "a phenomenal buyer's spree" in Moscow and other cities in the USSR. According to the Embassy, the most credible rumors indicate that: (a) new currency will be issued about 5 December; (b) permission will be granted to exchange old ruble notes for new up to the amount of two months salary; and (c) derationing will take place on 15 December when a single-price system will be established setting prices considerably higher than those under the present ration system. Any changing of the currency, the Embassy believes, would be designed to prevent a run on food and other stocks if and when derationing takes place.

NEAR EAST-AFRICA

5. IRAN: Qavam Government may be overthrown--According to US
Ambassador Allen, the Democrats of Iran party of Prime Minister Qavam has been split by the decision of 30 members to form a separate faction under the leadership of Majlis President Hekmat. Allen adds that this group, by joining forces with the opposition National Unity party and the Independents, would have sufficient strength to overthrow the Qavam Government. Allen reports his impression that everyone considers the fall of the Government imminent except Qavam, who declares that he will retain majority support in the Majlis when a test of strength comes.

FAR EAST

6. SIAM: Chinese Foreign Office urges non-recognition of coup regime--
According to US Embassy Nanking, the Chinese Foreign Office hopes that protracted non-recognition of the new Siamese Government will force a change in the coup government which will permit liberal Siamese elements to exercise greater authority.

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7. **CHINA: New anti-inflation measures authorized--US Consulate General Shanghai** has learned from Arthur Young, financial adviser to the Chinese Government, that leading Central Bank and Shanghai municipal officials have decided, under Chiang Kai-shek's general authorization, on the following anti-inflation measures: temporary suspension of government bank credits, open market sales of cotton yarn, a crack-down on black-market exchange operators, and limited support of the CN dollar in Hong Kong at black market rates. (Rumors of imminent anti-inflation measures have already reversed the trend in Shanghai's black market, where the rate for US dollars has dropped back to CN \$125,000, as against the CN \$150,000 peak of 28 November.)

(CIA Comment: Prospects of US aid undoubtedly are helping to create in Chinese financial markets a favorable atmosphere for Nationalist stop-gap measures.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

No significant new development.

GREECE

According to a communique issued concurrently with the recent Yugoslav-Bulgarian mutual assistance pact, the two participating states will not give the Security Council Balkan Commission any form of assistance and will not permit it to "set foot on their territories." Meanwhile, Foreign Minister Tsaldaris has expressed to US officials his pessimism on Greece's condition, has criticized delays in the US aid program, and has urged the necessity for more speedy action to salvage the situation (see item 6).

CHINA

No significant new development.

Document No. 051
 NO CHANGE in Class. ☐
☐ DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 4 APR 1978 By: 023

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GENERAL

1. Reported Communist drive to seize power in France and Italy--US Ambassador Dunn in Rome has received from very high Italian Government sources a document, which the US Military Attache evaluates "authoritative," relating to a recent special Cominform conference in Poland. According to the MA, the document indicates that: (a) the Soviet Politburo is directing a coordinated all-out Communist campaign to take over the French and Italian Governments by violence rather than constitutional methods; (b) although the initial emphasis is apparently on the use of general strikes timed to block the operation of the European recovery program, the Communists will not be restricted to this method; (c) the campaign is personally directed from Moscow by Zhdanov, secretary-general of the Soviet Communist Party, through his "personal representative," Foreign Minister Ana Pauker of Rumania; (d) Mrs. Pauker is a member of a new special committee in Belgrade--composed of representatives of the Soviet, Yugoslav, French, and Italian Communist Parties--which operates independently of the Cominform and will regulate and synchronize Communist action in France and Italy; and (e) the committee has been assured unlimited means--apparently including financing, food, and military stores--in order to carry out its campaign effectively.

(CIA Comment: CIA suggests, preliminary to the receipt of the reported document, that the document is: (a) an Italian Government plant for the purpose of expediting interim aid by impressing on the US Congress the urgent need for countermeasures against Soviet plans; (b) a Cominform device to stimulate activity on the part of the Italian and French Communists and does not reflect any real intention to take the course indicated; or (c) an authentic and accurate indication of Soviet plans, which have as their maximum objective Communist seizure of the French and Italian Governments and as their minimum objective the creation of such economic and political chaos in France and Italy as will preclude the successful implementation of the European recovery program.

(CIA does not believe that the French or Italian Communists are capable of seizing control of their respective Governments without material outside support. The supplying of such support, however, would involve the risk of a major conflict for which the USSR is presently unprepared.)

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2. King Michael to delay return--King Michael has informed US Ambassador Douglas in London that he will reside in Switzerland until the situation in Rumania is clarified. Meanwhile, US Ambassador Caffery in Paris has been informed that Michael will await the results of the London CFM meeting before making his final decision whether to return to Rumania.
3. France to join IRO--US Embassy Paris reports that France has decided to participate in the International Refugee Organization (IRO) and that the bill will come up for Assembly action "without debate" on 2 December.

(CIA Comment: French entry into the IRO, which will bring the number of members to 12, is expected to encourage the entry of Belgium, Argentina, and Brazil, thus providing the 15 members necessary to give the IRO full status.)

EUROPE

4. FRANCE: Blum predicts overthrow of Communist union control--Leon Blum has told US Ambassador Caffery that it should be possible "in the not too distant future" for the anti-Communist trade unionists to break Communist control of the CGT where opposition to the Communists is growing daily. Blum believes that it is "now of vital importance" to support and encourage non-Communist elements in the trade unions. In expressing extreme disapproval of De Gaulle for actions which have "seriously hampered the efforts of the real democratic elements in France," Blum explained that he took a strong stand against De Gaulle in the Assembly because of his conviction that French recovery depends "to a very great extent on the non-Communist left."
5. ITALY: Communists may resort to direct action--US Ambassador Dunn expresses his conviction that, because the political trend of Italy is now away from Communism and because the internal economy of the country has improved, the Communists will now assail law and order directly with intimidation and terrorization and may thus "in effect take over control of the country." Dunn doubts that the Government has sufficient forces of public order for dealing with such a situation, though he believes that Government use of police and even the army would have the majority support of the Italian people.

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(CIA Comment: US Military Attache Rome has estimated that the Government's armed forces and security troops are capable of preventing Communist seizure of power unless the Communists secure major Yugoslav assistance. CIA believes, however, that the Communists may succeed in creating a general state of disorder and terror.)

6. GREECE: Tsaldaris expresses pessimism about over-all situation-- Foreign Minister Tsaldaris has expressed to US Charge Keeley and AMAG Chief Griswold his deep concern over "the whole situation in Greece." Tsaldaris declared that conditions in Greece have so deteriorated since the original aid vote that everything points to the necessity for increased speed if the situation is to be met squarely. Tsaldaris expressed the view that implementation of AMAG measures has been dangerously delayed because AMAG recommendations have not been approved promptly by Washington. He stressed the seriousness of the gold situation and urged the necessity for a quick decision on the stabilization of the gold market.

Keeley comments that although the Greeks themselves have failed "to produce the kind of speed they ask of the US," there is an overriding necessity to implement AMAG decisions as quickly as possible, and that "our thinking must transcend the limited circumstances of the original aid program."

NEAR EAST-AFRICA

7. TURKEY: Turks foresee new Communist menace from the south-- Foreign Minister Sadak has told US Ambassador Wilson that: (a) the Soviet decision to support the partition of Palestine, despite the Arab resentment thus incurred, can be attributed to the value the USSR attaches to the opportunity afforded by official participation in Palestine to infiltrate Soviet agents into Arab countries; and (b) many small Soviet vessels with large crews and unknown cargo, passing through the Straits destined for Syria and Lebanon, are returning with crews of decreased size. Sadak infers that Soviet agents are constantly being landed for activity in Arab countries and he considers that Turkey may in the future be faced by a greater Communist menace from across its long southern borders than it has hitherto withstood from the north.

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THE AMERICAS

8. VENEZUELA: Betancourt threatens to cancel oil shipments to Brazil--
US Embassy Caracas reports that President Betancourt called in the heads of private oil companies to inform them that he has threatened the Brazilian Government with an embargo on "all shipments of crude oil and refined products" unless the latter government cancels the arms deal with the Dominican Republic. Betancourt further stated that if Brazil does not capitulate, he will ask the oil companies to "cooperate by stopping shipments."

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